

City of Ypsilanti, Michigan

Federal Awards Supplemental Information June 30, 2003

City of Ypsilanti, Michigan

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Independent Auditor's Report

To the City Council
City of Ypsilanti, Michigan

We have audited the general purpose financial statements of the City of Ypsilanti, Michigan for the year ended June 30, 2003 and have issued our report thereon dated October 22, 2003. Those general purpose financial statements are the responsibility of the management of the City of Ypsilanti, Michigan. Our responsibility was to express an opinion on those general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the City of Ypsilanti, Michigan taken as a whole. The accompanying schedule of expenditures of federal award and reconciliation of general purpose financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Plante & Moran, PLLC

October 22, 2003

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Report Letter on Compliance with Laws and Regulations and Internal Control - General Purpose Financial Statements

To the City Council
City of Ypsilanti, Michigan

We have audited the financial statements of the City of Ypsilanti, Michigan as of and for the year ended June 30, 2003 and have issued our report thereon dated October 22, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Ypsilanti, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the City of Ypsilanti, Michigan in a separate letter dated October 22, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Ypsilanti, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Ypsilanti, Michigan in a separate letter dated October 22, 2003.

To the City Council
City of Ypsilanti, Michigan

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 22, 2003

Report Letter on Compliance with Laws and Regulations and
Internal Control - Major Federal Awards

To the City Council
City of Ypsilanti, Michigan

Compliance

We have audited the compliance of the City of Ypsilanti, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The major federal programs of the City of Ypsilanti, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Ypsilanti, Michigan's management. Our responsibility is to express an opinion on the City of Ypsilanti, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Ypsilanti, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Ypsilanti, Michigan's compliance with those requirements.

In our opinion, the City of Ypsilanti, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 03-1 and 03-2.

To the City Council
City of Ypsilanti, Michigan

Internal Control Over Compliance

The management of the City of Ypsilanti, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Ypsilanti, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Ypsilanti, Michigan's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-1 through 03-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 03-1 through 03-4 to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 26, 2003

City of Ypsilanti, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity		Award Amount	Federal Expenditures
		Project/Grant Number			
U.S. Department of Justice:					
Domestic Violence Grant - Passed through Washtenaw County	16.588	199-WE-VX-K007	\$	38,508	\$ 38,508
Passed through the Michigan Department of Community Health:					
Lawnet Conspiracy Continuation Project	16.579	70771-4K01		35,493	3,027
Lawnet Conspiracy Continuation Project	16.579	70771-5K02		36,466	26,898
Byrne Memorial Formula Grant Program	16.579	72028-1K02		38,025	9,750
Total passed through Michigan Department of Community Health					39,675
Total U.S. Department of Justice					78,183
U.S. Bureau of Alcohol, Tobacco, and Firearms - Gang Resistance Education and Training	21.053	N/A		4,250	2,003
U.S. Department of Housing and Urban Development:					
Community Development Block Grant - Passed through Michigan Economic Development Corporation	14.228	MSC 201017- EDIG		2,750,000	1,109,915
1999 Home Rehabilitation - Passed through Michigan State Housing and Development Authority	14.234	M-1999-0313		7,545	7,545
Total U.S. Department of Housing and Urban Development					1,117,460
U.S. Environmental Protection Agency:					
Brownfield Pilots Cooperative Agreements - Brownfield Supplemental Grant	66.811	N/A		114,000	10,000
Passed through Michigan Department of Environmental Quality - Capitalization Grants for Drinking Water State Revolving Funds	66.468	7112-01		785,000	5,038
	66.468	7122-01		5,300,000	963,108
	66.468	7096-01		485,000	206,111
Total U.S. Environmental Protection Agency					1,184,257
U.S. Department of Transportation - Federal Highway Administration - Passed through Michigan Department of Transportation Highway Planning and Construction	20.205	51013A		413,752	43,658
Total federal awards					<u>\$ 2,425,561</u>

City of Ypsilanti, Michigan

Reconciliation of General Purpose Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Revenue from federal sources - As reported on financial statements - Includes all funds	\$ 823,516
Federal revenue not reported as such in the financial statements:	
Capitalization Grant Proceeds for Drinking Water Revolving Fund*	1,174,257
Community Development Block Grant - Loan proceeds*	1,109,915
Federal Highway Administration funding recorded as deferred revenue	7,746
Federal revenue related to projects not administered by the City reported in the financial statements	<u>(689,873)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 2,425,561</u></u>

* Amount is included as long-term debt in the general purpose financial statements.

City of Ypsilanti, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2003

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Ypsilanti, Michigan and is presented on the same basis of accounting as the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Note 2 - Loans Outstanding

The institution had the following loan balances outstanding at June 30, 2003. Where required by OMB Circular A-133, these loan balances outstanding are also included in the federal expenditures presented in the schedule of expenditures of federal awards.

Federal Program	CFDA Number	Amount Outstanding
Community Development Block Grant	14.228	\$ 2,308,324
Capitalization Grants for Drinking Water State	66.468	
Revolving Funds- Project number 7096-01		<u>480,000</u>
Total		<u>\$ 2,788,324</u>

Note 3 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

Federal Program	CFDA Number	Amount Provided to Subrecipients
Capitalization Grants for Drinking Water State		
Revolving Funds	66.468	\$ 5,038

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2003

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weaknesses(es) identified? ☒ Yes ☐ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds
14.228	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2003

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

Reference Number	Findings
03-I	<p>Program Name - Community Development Block Grant; CFDA Number 14.228</p> <p>Pass-through Entity - Community Development Block Grant passed through Michigan Economic Development Corporation (MI EDC)</p> <p>Finding Type - Reportable condition; material weakness; material noncompliance</p> <p>Criteria - Grant requirements limit the amount that can be paid for relocation expenses to actual costs incurred or a maximum of \$20,000 in lieu of actual costs.</p> <p>Condition - The City paid relocation expenses in excess of \$20,000 based on estimated costs incurred, all of which were reimbursed by MI EDC. The City has decided to use other City funds to pay for the expenses in excess of \$20,000.</p> <p>Questioned Costs - None</p> <p>Context - A sample of relocation expenditures was tested and noncompliance conditions related to the established limits were noted.</p> <p>Cause/Effect - The City was unfamiliar with the limits set for relocation expenses, which lead to amounts being paid in excess of the maximum.</p> <p>Recommendation - We recommend the City review the limits established for relocation expenses and return to the granting agency the amounts spent in excess of those limits.</p>

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2003

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
03-2	<p>Program Name - Community Development Block Grant; CFDA Number 14.228</p> <p>Pass-through Entity - Community Development Block Grant passed through Michigan Economic Development Corporation (MI EDC)</p> <p>Finding Type - Reportable condition; material weakness; material noncompliance</p> <p>Criteria - Federal laws require the City to establish effective cash management procedures to ensure that drawdown requests are limited to the City's immediate needs.</p> <p>Condition - The City based one of its reimbursement requests on estimated costs rather than actual costs incurred. The City continued to request reimbursements as expenses were incurred rather than using excess funds on hand. The City also earned interest on the funds on hand, which was not remitted to the granting agency.</p> <p>Questioned Costs - None</p> <p>Context - The City does not have an adequate cash management program in place to ensure that reimbursement requests are submitted in accordance with the City's immediate needs.</p> <p>Cause/Effect - Due to an inadequate cash management program, reimbursement requests were submitted for more than the City's immediate needs.</p> <p>Recommendation - We recommend the City review and amend their cash management program and discontinue requesting reimbursements in excess of the City's immediate needs. We also recommend that the City return any excess funds, including interest earned, to the granting agency until future expenses are incurred.</p>

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2003

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
03-3	<p>Program Name - Community Development Block Grant; CFDA Number 14.228</p> <p>Pass-through Entity - Community Development Block Grant passed through Michigan Economic Development Corporation (MI EDC)</p> <p>Finding Type - Reportable condition; material weakness</p> <p>Criteria - Federal laws require the City to obtain a suspension and debarment certification for all contracts entered into greater than \$100,000 that are funded by federal sources.</p> <p>Condition - The City entered into two contracts greater than \$100,000 that were federally funded. The City did not obtain the suspension and debarment certification for either contract. After being made aware of the requirement, the City did verify both contractors were not on the suspension and debarment list.</p> <p>Questioned Costs - None</p> <p>Context - The City's contracts funded by more than \$100,000 of federal sources were tested and departures from the requirements were noted.</p> <p>Cause/Effect - The City was not aware of the requirement, thus the suspension and debarment certifications were not obtained.</p> <p>Recommendation - We recommend that the City address the suspension and debarment requirement each time a new contract is awarded.</p>

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2003

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
03-4	<p>Program Name - Community Development Block Grant; CFDA Number 14.228</p> <p>Pass-through Entity - Community Development Block Grant passed through Michigan Economic Development Corporation (MI EDC)</p> <p>Finding Type - Reportable condition; material weakness</p> <p>Criteria - Federal laws require that the City have an adequate system in place to accumulate and accurately report information to the funding agency.</p> <p>Condition - The City submitted a progress report to MI EDC, but was unable to provide support for the amount reported as cumulative expenditures incurred to date. The information provided on the report was also not reconciled to the general ledger. As a result of our testing, it was determined that the report contained an error.</p> <p>Questioned Costs - None</p> <p>Context - The City does not have an adequate system in place to ensure that reports submitted are accurate and are supported by underlying documentation.</p> <p>Cause/Effect - Due to an inadequate system of accumulating and reporting information, the City was unable to provide support for the progress report submitted and the error in the report was not detected by the City.</p> <p>Recommendation - We recommend that the City develop a system to more accurately accumulate and report information. We also recommend that the City maintain support for the information submitted.</p>